Leading a rethink of China's Belt and Road Initiative

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China's Belt and Road Initiative is no longer seen as attractive today as it was ten years ago. However, some key differences in approaches to China are emerging throughout Europe. This is evident when analysing German engagement towards China, versus that of Southeast Europe.

It has been ten years since the inauguration of China's flagship foreign economic policy – the Belt and Road Initiative (BRI). The Chinese President Xi Jinping has labelled the BRI as the "project of the century." Many of the more than 140 participating countries have ample reason to take stock of the benefits and drawbacks of their cooperation with, and integration into, this geopolitical and geo-economic project.

Beijing has used this anniversary to celebrate its so-called "win-win" initiatives in a "changing multipolar" world – a decision which cannot come as a surprise, given the political importance attached to the initiative, the magnitude of financial resources committed, and the international outreach achieved with projects. These initiatives have ranged from traditional infrastructure building and cultural diplomacy to lending arrangements and corporate investments. This China-led project has also earned a rising tide of vocal critics. These critics may not have much in common with advocates of the Belt and Road, but they can all agree on one critical element: no other government has been able, nor willing, to match Beijing's geo-strategic ambition embodied by the Belt and Road Initiative.

Peak China?

Today, China is consolidating its role in the region of Southeast Europe, especially in the Western Balkans. Meanwhile, the Sino-German relationship is also evolving. The reality on the ground over the past decade has changed and so have the narratives when engaging with China. This should encourage a critical assessment of where bilateral relations with Beijing currently stand and what should guide them in the near future. The German perspective on this topic serves as an illustration that similar challenges and opportunities characterise the current state of play in bilateral economic, commercial and political relations with China, irrespective of whether the country in question is a member of the EU or a candidate country.

There is a growing body of critical China research in Europe which argues that we have witnessed "peak China" in terms of investments, lending and infrastructure projects related to the Belt and Road Initiative. Based on available statistical data, this assessment is correct. Chinese companies and state-owned banks are not as active anymore as they were a decade ago in terms of securing funding for government-driven infrastructure projects in Southeast Europe. Moreover, we can identify a greater country-specific focus by Beijing, with a clear preference for Serbia, Hungary and Turkey. Major infrastructure investments in Greece (the expansion of the Port of Piraeus) and North Macedonia (construction of the highway from Lake Ohrid to Kičevo) are also ongoing and the Chinese-built Pelješac Bridge was inaugurated to great fanfare in July 2022 in Croatia.

These trends point to a greater focus on the Balkan region (and more broadly Southeast Europe) with a noticeable and long-term presence in key sectors of these countries' political economies. However, this observation should not obscure new Chinese initiatives in selected countries that emphasise the continuation of its Belt and Road outreach, its infrastructure agenda and connectivity objectives. Consider the following examples:

- In September 2023, a Sino-Turkish agreement was signed to build a nuclear power plant in Kirklareli in Eastern Thrace. If and when completed, it would constitute the country's second nuclear reactor for Turkey. At present, Russia's Rosatom is completing the construction of Turkey's first nuclear power plant in Akkuyu, in the southern province of Mersin.
- In Bosnia and Herzegovina, the Dakar hydropower plant is being built by the China Gezhouba Group. The cost of the project currently stands at 338 million euros.
- Similarly, the construction of the Počitelj Bridge in southern Bosnia and Herzegovina is advancing. The Chinese companies involved are Sinohydro Corp., PowerChina Roadbridge Group and China Gezhouba. The bridge project in-

cludes a loan agreement with the European Investment Bank (100 million euros) and a five million euro grant from the Western Balkan Investment Fund.
- The Chinese copper mining conglomerate Zijin, which is already active in Serbia, is planning to invest up to 3.8 billion US dollars to expand its copper mining operations in the country.

What do these recent Chinese activities in Southeast Europe highlight? For one, they underscore the continuous nature of Beijing's investment in and commitment to the region. Moreover, individual Chinese companies are prepared to invest considerable amounts of financial resources in selected sectors, particularly in energy extractive industries necessary for electric vehicle production. Finally, as the Počitelj Bridge project in Bosnia and Herzegovina illustrates, these infrastructure initiatives are partly co-financed by European Union institutions and funding facilities to which Chinese companies are gaining access.

Germany debates its China engagement

The aforementioned examples underline that governments in various countries in Southeast Europe do not consider China either a rival or a competitor. They are also not reluctant to permit Chinese investments and/or lending facilities for large-scale projects in critical infrastructure. This continued proactive engagement of the region's political elites with China stands in marked contrast to how the German government in Berlin is currently re-evaluating its policy priorities towards Beijing.

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In July 2023 the German foreign ministry published its first China strategy. After a rather long inception period and vibrant debate inside and between government ministries, the strategic document lays out a critical roadmap for dealing with China. The focus rests on issues such as the impact of China's engagement on national security; how supply chains in different sectors of the German economy are affected, in particular car manufacturing; and a plan for products that rest on sensitive intellectual property, such as pharmaceutical products and cybersecurity (the presence of Huawei in 5G telecommunications). The emphasis rests on establishing a level playing field if and where Chinese companies seek access to economic sectors in Germany.

Such reciprocity is still not guaranteed for many German companies, including in Chinese telecommunications or access to shipping terminals in China. German companies' access to Chinese financial and insurance sectors is similarly insecure and dependent on the whims of the Chinese state. Thus, the new China strategy underlines a shift away from considering China as primarily a partner for business affairs (the predominant focus of the previous government of Chancellor Angela Merkel). Instead, the new rules of the game in government ministries and the chancellery in Berlin are to see China as a rival towards which it is increasingly necessary to voice an assertive "no" with regards to certain investment projects in defined industrial and service sectors.

There is a growing divergence between Berlin's political approach and how large German companies "read" China.

Unsurprisingly, this new positioning of the federal government in Berlin is not without its critics. Obviously, the Chinese side was quick to disqualify the strategy document as one-sided and lacking in analytical depth. But it was perhaps more interesting to note a similar reaction from the German business community, in particular large companies in car manufacturing and the chemicals industry. From Mercedes Benz to Siemens, a large swathe of German producers continue to increase their investment portfolios in China. We can thus observe a growing divergence between the political strategic roadmap presented in Berlin and how large German companies "read" China. This divergence is counterproductive for the coherence of a strategic recalibration.

Sino-German interdependence is primarily reflected in commercial trade. In 2022, bilateral trade rose to a record level. Despite political warnings in Berlin about excessive exposure, China has been Germany's single largest trading partner for seven years running. Goods and services worth 298 billion euros were traded between both countries in 2022. This marked an increase by 21 per cent against the previous year. China is one of the very few countries with which Germany has a trade deficit, which reached 84 billion euros in 2022. German direct investment in China eased in the first half of 2023. However, it remained close to its record high in 2022 and increased as a share of the country's overall investment abroad.

Taking stock of China exposure

In Germany the public debate about how to approach China is chiefly characterised by its critics arguing that companies have replaced their historical dependency on Russian energy with a new dependency on Chinese markets. China advocates in the corporate sector and in some parts of German academia warn against "China bashing". They argue that the German economy is not in a position to dis-

A monument to Confucius in front of the Chinese Cultural Centre Building in New Belgrade.
China is consolidating its role in the region of Southeast Europe, especially in the Western Balkans.

invest from its exposure to Russia following Moscow's invasion of Ukraine and simultaneously disengage from China. In that context, the mantra of "de-risking" instead of "de-coupling" from China is the order of the day for many in German politics and corporate operations.

What is the perspective that we can identify in the countries of Southeast Europe? Do they have similar debates and face similar challenges? What lessons have they learnt over the past decade from their engagement with and exposure to Chinese infrastructure projects, lending arrangements and corporate investments? A striking feature of this experience is the level of knowledge concerning China in the region. Over the past ten years, the Balkans have produced an ever-increasing amount of intellectual work in this field. Think tanks such as ESTIMA in North Macedonia, the BIRN reporting platform, China Central and Eastern Europe (CHOICE) and a wide array of other non-governmental organisations have emerged and grown. This is especially true in reporting on the environmental impact of Chinese infrastructure projects and mining activities, for example in Serbia, Montenegro and Bosnia and Herzegovina.

However, the mobilisation of civil society is still a work in progress. Today any Chinese investment or infrastructure project faces a level of public scrutiny that did not exist prior. This also makes it much more challenging for governing elites in the recipient countries to close deals with their Chinese counterparts. Calls for contract transparency, the implications of loan facilities and the small print of negotiated commitments are all part of public inquiry today. If Chinese parties want to invest in Serbia, Hungary or North Macedonia today, they must anticipate challenging questions, recourse to judicial review and vibrant public debates among different constituents of civil society.

In Germany, the federal government has established guidelines as to which sectors of the economy are either off limits, or in which strict limitations of share ownership by Chinese companies exist. Restrictions currently exist in cybersecurity, data mining, pharmaceuticals, port infrastructure, semiconductors and artificial intelligence. This more muscular approach towards China is as much driven by geopolitical considerations as it is the result of a root and branch evaluation by the current governing coalition in Berlin. The main goal of this shift is to seek a new definition of the country's China priorities as reflected in the recently released strategy document.

With regard to the countries of Southeast Europe, the level of established China competence outside governing elites has not automatically led to the revision of projects or the rejection of loan offers. While ministries and regulatory authorities have gained a wealth of policy experience by dealing with Chinese interlocutors, this does not (yet) translate into a manifest political will to challenge Chinese projects, seek revisions to established contract conditions or even reject loan offers from a Chinese bank. What we rather observe is that governments in Serbia, parts of Bosnia and Herzegovina, Turkey and Hungary in particular are willing enablers of Chinese project initiatives. They reflect a level of local political agency that continues to see Beijing as a prominent alternative to the administrative regulations and transparency requirements inherent in projects co-funded by the European Commission in Brussels.

Outlook

Over the course of the past decade, as the Belt and Road Initiative has evolved, so have China-related research and fact-based advocacy. In Germany, the debate centres strongly around the issues of how politics and business can realign in their diverging approaches and strategies towards China. While the federal government is increasingly taking a geopolitical perspective vis-à-vis China and rearranging its policy toolbox, many business representatives from large companies focus on the challenges of recalibrating their geo-logistics to countries neighbouring China. This process involves expanding their supply chain management and investment priorities towards Vietnam and a larger focus on India. These two conflicting perspectives between federal politics in Berlin and corporate priorities of German (large) businesses are intertwined, and it does not appear that any resolution is in sight in the near future.

Such domestic debates about China do not exist to the same extent in the countries of Southeast Europe. While much progress has been achieved in terms of creating independent China research and competent, fact-based advocacy, policy formulation remains essentially an elite-driven arrangement between the government in Beijing and the host country, as well as (some) corporate insiders benefiting from procurement contracts for large-scale infrastructure projects.

But we should not underestimate the capacity building efforts of civil society. On occasion informed pushback against China has become influential unexpectedly and yet forcefully. This was in evidence in mid-2021 in Hungary, where the government of Viktor Orbán is one of the loudest cheerleaders of China engagement. When Fudan University in China announced plans to build a campus university in Budapest with the explicit financial support of the Hungarian government, protests broke out on the streets of the capital city. The estimated costs of the project were projected to reach 1.1 billion euros. Ninety per cent of this funding would be provided by a loan from a Chinese state-owned bank. In light of these conditions, Budapest witnessed some of the largest mass protests since the fall of the communist regime in 1989. The magnitude of the opposition on the streets reached such a level that Orbán, who is not prone to give in to street protests against his pet projects, was forced to acknowledge that he would have to hold a referendum on the controversial Chinese initiative. It goes without saying that the referendum has not been held nor has the Fudan University project advanced in any significant way.

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